

30.5.2019

PRESS STATEMENT BY

DATO' IR. JASENI MAIDINSA

CEO, PBA HOLDINGS BHD AND PBAPP

PENANG HAS TO TACKLE 3 KEY WATER SUPPLY ISSUES

- **High per capita domestic consumption**
- **High domestic water supply subsidy**
- **Second major raw water resource: Sungai Perak**

PENANG, Thursday, 30.5.2019: In 2018, Perbadanan Bekalan Air Pulau Pinang Sdn Bhd (PBAPP) sustained good continuous water supply services for the benefit of 1.77 million people and thousands of businesses in Penang.

However, PBAPP's 2018 water supply data has highlighted 3 issues that must be addressed urgently:

1. Per capita domestic consumption in Penang increased from 276 litres/capita/day (l/c/d) in 2017 from 278 l/c/d in 2018. This is a minimal 2 l/c/d increase but per capita domestic consumption in Penang was too high in the first place.

Kindly note that the national average for Malaysia in 2017 was only 201 l/c/d; and the Federal Government is targeting to achieve a national average of 180 l/c/d by 2025.

2. PBAPP's domestic water supply subsidy amounted to RM71.74 million in 2018. Without a water tariff review, this subsidy will increase in 2019 and every consecutive year.
3. Penang needs to tap a second major raw water resource soon because it has become overdependent on Sungai Muda as its one and only major raw water resource.

Projections indicate that Sungai Muda may be able to meet Kedah and Penang's raw water needs only until 2025. As such, Penang needs the first phase of the Sungai Perak Raw Water Transfer Scheme (SPRWTS) to be commissioned by 2025.

Penang's water demand was 840 million litres per day (MLD) in 2018. It is projected to reach 1,483 MLD by 2030 and 1,884 MLD by 2050. Without sufficient raw water, PBAPP will not be able to produce sufficient treated water to meet Penang's future demand.

REVIEWING WATER TARIFFS

Penang's average domestic water tariff for the first 35,000 litres per month is the lowest in Malaysia (RM0.32 per 1,000 litres compared to the national average of RM0.69 per 1,000 litres).

At the same time, Penang's per capita domestic consumption in 2018 was the highest in Malaysia (278 l/c/d compared to the national average of 201 l/c/d in 2017).

There is a correlation between the lowest average domestic water tariff and the highest per capita domestic consumption.

As such, PBAPP intends to review water tariffs, so as to raise the value of water. The objective is to convince all domestic consumers to conserve water in the same manner as they conserve electricity and fuel.

Reviewing domestic water tariffs will also automatically reduce PBAPP's domestic water subsidy. The subsidy reduction will free up funds for PBAPP to undertake its projects for the future.

Presently, the most critical water supply project for Penang's future is the Sungai Perak Raw Water Transfer Scheme (SPRWTS). The SPRWTS is the most rational raw water solution for Penang because:

- The SPRWTS has the potential to guarantee raw water supply security for Penang for more than 30 years, until 2050.
- It is more cost-effective, in terms of development and operational costs, when compared to water recycling, rainwater harvesting or desalination.
- Tapping a second major raw water resource reduces the risks of a water crisis during prolonged dry seasons caused by climate change.



The projected development cost for the SPRWTS was estimated to be about RM2.6 billion in 2009. Naturally, the cost will be higher in 2019.

Please note that with the present Penang water tariffs, PBA Holdings Bhd generated a profit before tax of RM36.14 million in 2018.

There is no way for PBAPP to raise sufficient funds for a major capital expenditure (CAPEX) project like the SPRWTS without water tariff reviews.

AWAITING FEDERAL APPROVAL FOR THE TSM

The Ministry of Water, Land and Natural Resources (KATS) is seeking Federal approval for its proposed Tariff Setting Mechanism (TSM).

Basically, the TSM is a guideline formula to calculate rational and forward-looking water tariffs.

It compels water operators to set tariffs that cover operational expenditure (OPEX) for day-to-day business activities, as well as CAPEX for funding infrastructure upgrading and new infrastructure projects. Over and above the OPEX and CAPEX considerations, the TSM allows a water supply operator to earn a reasonable and regulated profit margin.

The forward-looking CAPEX consideration is the TSM's most important attribute. In the past, most state governments approved tariff reviews based purely on increases in a water supply operator's OPEX. OPEX includes energy, fuel and chemical costs, as well as emoluments and maintenance costs.

However, a water supply operator that sets tariffs based purely on OPEX can only "cover costs". If there is no provision for CAPEX, there will be no funding for new projects to address water supply issues or future water demand. Such projects would then be delayed or postponed... until a water supply disaster occurs.

Meanwhile, here in Penang, the State Government promotes a "no water rationing at all costs" policy. This policy is applicable today, and it will also be applicable in the future.

Looking ahead, PBAPP is planning and implementing water supply development projects to guarantee water supply security for Penang towards 2050.



Accordingly, we are awaiting Federal approval for the TSM before formulating a water tariff review proposal that incorporates CAPEX provisions to fund PBAPP's projects for the future.

PBAPP's proposal will also be subject to scrutiny and approval by the Penang State Government, the National Water Services Commission (SPAN) and the Federal Government.

Thank You.

Issued by : Puan Syarifah Nasywa bt Syed Feisal Barakbah
Corporate Communications Unit
Tel : 04-200 6607
Email : syarifah@pba.com.my